



## **OXFORD ANALYTICA**

### **MOROCCO**

### **MONETARY TRANSPARENCY**

#### **Country Report 2005**

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# MOROCCO



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2005	2004	2003	2002
Clarity of roles	••••	•••	--	•••
Open decision process	•••	•••	--	••
Availability of information	•••	•••	--	•••
Central bank accountability	••	••	--	••
<b>Score</b>	<b>3.00</b>	<b>2.75</b>	<b>--</b>	<b>2.50</b>

## OUTLOOK & COMMENTARY

The independence of Bank Al-Maghrib (BAM), Morocco's central bank, has been strongly reasserted with the approval of the new Statutes of the BAM in 2005. These new statutes, together with the new Banking Act, clearly stipulate that the main objective of the BAM is the maintenance of price stability. As such, the statutes give the central bank complete autonomy in picking the financial instruments to meet its monetary objectives; they also make clear its separation from the government in other areas and extend the supervisory role of the BAM.

The information and data available to the public has again increased this year, and the BAM is putting in place the necessary final requirements for compliance with the IMF Special Data Dissemination Standard (SDDS).

## EXECUTIVE SUMMARY

### 3.00 Compliance in Progress

The growth of the national financial system, together with the need to adapt to international banking standards and improve the supervisory role of the Bank Al-Maghrib (BAM), Morocco's central bank, has been the driving force behind the approval of the new Statutes of the Bank Al-Maghrib and the adoption of a new Banking Act in 2005.

Key changes include a clearer distinction of roles between the BAM and the Ministry of Finance (MoF), an improved auditing of financial statements, and the re-enforcement of the powers of the Securities and Exchange Commission -- Conseil Deontologique des Valeurs Mobilières (CDVM) -- to control data provided by listed Moroccan companies. Going forward, the activities of the CDVM will become more significant as the domestic stock exchange increases in activity and market capitalisation.

The BAM's supervisory powers have also been strengthened and extended to include control of credit institutions and their activities.

The BAM is formally forbidden to provide any financial assistance to the state or to state-owned companies, and its financial statements will now be submitted for review by external auditors.

The new Statutes and the Banking Bill provide the BAM with formal autonomy, which had hitherto relied on the personality of the current governor.

Morocco's overall score has improved from 2.75 in 2004 to 3.00

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES OF CENTRAL BANKS



### Compliance in Progress

#### The objectives and institutional framework of monetary policy

The institutional framework underpinning monetary policy in Morocco is set out in the Statutes of the Bank Al-Maghrib (BAM), the Moroccan central bank, and the 1993 Law on Credit Institutions. A revised Banking Act and new Statutes of the BAM were passed in 2005. These amendments clarify the roles of the BAM in relation to those of the Ministry of Finance, for example in determining the exchange rate policy. They also give giving greater powers to the BAM in the area of banking supervision, and in strengthening central bank autonomy. In addition, the central bank is now able to pick its financial instruments in order to achieve price stability, which is confirmed as the main objective of money policy by the new statutes<sup>1</sup>

#### Central bank objectives and responsibilities

The functions of the BAM, as set out in its Statutes, are issuing currency, guarding currency stability and convertibility; developing the money market and ensuring its regulation; managing the public exchange reserves; banking supervision; acting as financial agent of the Treasury; and producing financial and monetary statistics.<sup>2</sup>

The BAM has produced an internal document, the Strategic Development Plan (2004-2006), which facilitates reform and refocuses the central bank's objectives. The plan targets nearly every operational aspect of the BAM including: monetary policy, banking supervision, internal systems of payments, reinforcing continued education, and improved communication with the public. The plan has been kept internal so as to facilitate constructive criticism without damaging the reputation of the BAM. According to commentators, the current BAM governor, Abdellatif Jouahri, wants to optimise the functioning and management of the central bank. As part of the strategic plan, officials evaluated its technological capabilities with the help of external consultants and the Banque de France.<sup>3</sup> The BAM has a new organisational structure under the new statutes, and this is described in detail on its website.

#### Operational autonomy

The BAM is legally independent and financially autonomous, and is viewed as having a high level of independence in its operations.

The BAM governor is appointed by royal decree (*dahir*), and is accountable to the king.<sup>4</sup> However, under the new statutes he must now also report to parliament. The governor presides over the Central Bank Council and is responsible for ensuring its proper functioning.<sup>5</sup> The Central Bank Law does not specify the term, conditions or causes for dismissal of the governor. Commentators have underscored that, while this arrangement has worked well to date, its efficacy depends largely on the personal qualities of the governor. The current governor is highly respected in the financial community, and has the reputation as someone capable of implementing reform.<sup>6</sup>

Under the revised Banking Act, the National Credit and Savings Council will no longer be consulted on the directions and implementations of monetary policy. Also the Credits Institutions Committee will no longer be asked for its opinion on the technical aspects of policy instruments.<sup>7</sup>

## **Institutional relationship between monetary and fiscal operations**

### **Lending to government**

The separation between monetary and fiscal operations is satisfactorily defined and is reinforced by the revised Statutes of the BAM. These prevent the granting of direct financial assistance to the state, except for cash facilities, which are also regulated.<sup>8</sup>

### **Central bank involvement in the rest of the economy**

The procedures governing the BAM's participation in the primary and secondary markets are set out in its Statutes and the *Circulaire relative aux interventions de Bank Al-Maghrib sur le marché monétaire*.<sup>9</sup> Furthermore, the BAM has divested nearly all of its ownership in former public enterprises with the exception of those institutions specifically named by the revised Statutes of the BAM and the Banking Act, for example Crédit Immobilier et Hôtelier, Caisse Centrale et Garantie and the Caisse de Dépôt et de Gestion.<sup>10</sup>

### **Central bank profit allocation**

In accordance with Article 65 of the Statutes of the BAM, losses and profits are defined as the surplus in the operating account minus administration, management and other operational costs. At least 10% of these net profits are then allocated to a general reserve fund until this fund reaches an amount equal to that of the central bank's capital. After the above deductions, the central bank pays the remainder to the state in the form of a dividend.<sup>11</sup>

## **Agency roles performed by the central bank on behalf of the government**

The BAM serves as banker and financial adviser to the government, and is responsible for the management of domestic and external public debt.<sup>12</sup> The central bank assists the government in its relations with international financial institutions, while the state assumes liability for any risks and reimburses any losses or expenses incurred by the BAM.

The BAM has responsibility for supervising deposit-taking institutions as described in the Law on Credit Institutions. The central bank has improved its supervision of the domestic banking system; amendments to relevant legislation have reinforced this supervisory role.<sup>13</sup> This now includes approving any change of control of, or merger and acquisitions between, domestic credit institutions.<sup>14</sup>

## 2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



Enacted

### The framework, instruments, and targets of monetary policy

#### Framework and monetary targets

The new statutes have re-enforced and clarified the powers of the BAM and set price stability as the main objective of monetary policy. The new statutes give to the central bank the necessary independence to achieve this policy.<sup>15</sup> The BAM provides detailed information in its public pronouncements, and on its website, about the specific frameworks it uses.<sup>16</sup>

The BAM has had considerable success in maintaining low inflation. The low inflation rate thus recorded confirms the trend observed since 1996, which is attributable to the combined effects of the pursuit of a monetary policy aimed at bringing about price stability, more competition, and the easing of producer costs resulting largely from the process of dismantling tariffs.<sup>17</sup>

#### Monetary instruments

The instruments available to the BAM for implementing monetary policy, such as open market operations, are set out in Articles 24, 36 and 39 of the Statutes of the BAM and described in greater detail in various circulars, in particular the *Circulaire relative aux interventions de Bank Al-Maghrib sur le marché monétaire*.<sup>18</sup> The revised Statutes give the BAM complete autonomy in selecting monetary instruments for policy implementation.<sup>19</sup>

### The monetary policy-making body

#### Monetary board

The Central Bank Council is composed of the BAM governor, the vice governor or the director general of the BAM, a representative each from the MoF, the Ministry of Economic Affairs, the Ministry of Industry, the Ministry of Agriculture, the Ministry in charge of Local Government, and the Social and Economic Council, together with five members each nominated for three years who have shown themselves to have expertise in monetary and financial affairs.<sup>20</sup> The council meets at least quarterly and can also meet at the initiative of the governor or at least three of the other participating members.<sup>21</sup> The council has a broad mandate, making decisions and performing tasks that range from approving the central bank's annual budget to giving advice on the nomination of a new governor.<sup>22</sup> The BAM website gives detailed information regarding the remit of this advisory body in French and Arabic.<sup>23</sup>

#### Advance meeting schedule

The Central Bank Council meets at least once every quarter, and additionally at the request of the governor or three of its members. The dates of the quarterly council meetings are published in advance.<sup>24</sup>

## Public statements on monetary policy

### Periodic publications

The BAM announces monetary policy decisions and changes in its principal monetary instruments through regular public information services. There is a legal obligation to publish the *Annual Report* and present it to the king before the 30th of June.<sup>25</sup> The BAM's website provides up to date information on deposit, lending and inter-bank interest rates; on foreign exchange rates; on T-Bill and T-Bond issues; negotiable debt securities; and interest rates. It also carries summary monthly information about secondary market transactions for T-Bills and T-Bonds up to approximately two months before the current month.<sup>26</sup>

The BAM issues statements to the public on the progress towards meeting monetary policy objectives. Otherwise, its main statements are in the BAM's *Annual Report* and on the website.<sup>27</sup> The *Annual Report* contains extensive financial data and highlights the macroeconomic situation both nationally and internationally.

Article 63 of the Statutes also requires the governor to provide an update to the MoF on the state of the BAM's accounts. The update is then published in the *Bulletin Officiel*.

### Public hearings

There is no formal requirement for public consultations on substantive technical changes to the structure of monetary regulations. However, the National Credit and Savings Council (CNCE), which replaces the National Monetary and Savings Council (CNME), provides a forum for representatives from business and financial institutions to discuss credit policy with the BAM governor. The governor also meets with the press frequently in order to explain policy decisions. After each meeting of the Central Bank Council, the BAM publishes and posts on its website the decisions made during the meeting.<sup>28</sup>

## Regulations on data reporting by financial institutions to the central bank

Banks and credit institutions are required to provide the BAM with all relevant data and documentation required for the BAM to be able to fulfil its supervisory role. The financial statements of banking institutions must be certified by two statutory auditors. If an institution fails to abide by this, the BAM may recommend to the minister of finance that the institution be sanctioned.<sup>29</sup>

However, in 2004 commentators said that, in general, investors have a poor opinion of the quality, quantity, and timeliness of data published in the financial statements of listed Moroccan companies.<sup>30</sup> Data standards are also of great concern to government officials and there are numerous plans underway to address this issue at national, local and even private levels. The Morocco Securities and Exchange Commission -- *Conseil Déontologique des Valeurs Mobilières* (CDVM) -- has seen its role re-enforced by the Banking Bill and is focusing on the quality of data published by listed Moroccan companies.

### 3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY



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#### Release of central bank data

Morocco does not yet participate in the IMF's General Data Dissemination System (GDDS), nor does it officially meet the IMF Special Data Dissemination Standard (SDDS). However, an IMF mission in early 2005 examined if Morocco was ready to officially comply with the SDDS. SDDS subscription is expected for the end of 2005 or early 2006. There is also a strong push from within the government -- in particular, *La Direction de la Statistique* -- to conform to international data standards.<sup>31</sup> The BAM, for data under its remit, largely complies with the SDDS.

Since November 2005, the BAM publishes an advance release calendar for economic and financial data, international reserves and foreign currency liquidity.<sup>32</sup> Data are accessible directly upon request at the BAM, through its publications or its website.<sup>33</sup> The BAM presents its *Annual Report* to the king by the end of June each year. The report is made fully available to the public, in Arabic, French, and English. Commentators have indicated that all central bank data is completely independent of any political interference, as the governor receives the data at the same time as it is officially published.<sup>34</sup>

#### The central bank balance sheet

In its monthly *Monetary Statistics* and the *Quarterly Bulletin*, the BAM publishes a summary balance sheet of assets and liabilities. A detailed balance sheet is also published in the *Annual Report*. *Monetary Statistics* gives detailed information on the financial position of the BAM. Morocco is a member of the International Organisation of Supreme Audit Institutions (INTOSAI).

In both the monthly and quarterly reports, the BAM sets out information on aggregate market transactions, providing comparison data for the reference months in the previous year. Data in the monthly report cover monetary and liquid investment aggregates, M3 counterparts, net foreign assets, and claims on government and the private sector. Aggregate data for the banking system is also provided.

#### Lender of last resort

The BAM acts as the lender of last resort for those financial institutions in need of liquidity interventions. In case of severe financial crisis, it is the Treasury that acts as lender of last resort.<sup>35</sup> However, there is no mention of this in the central bank Statutes.

#### Public information services

The BAM's publication programme consists of the *Annual Report*, the *Quarterly Bulletin* (the *Bulletin Trimestriel*), the *Note Mensuelle de Conjoncture* -- a weekly *Note* in French and Arabic -- and the monthly *Monetary Statistics*. The BAM has recently made considerable improvements to its public information services. Its website has Arabic, English, and French versions, and provides extensive information on the BAM as well as access to regulations and statistics. The *Annual Report* is made fully available to the public in Arabic, English and French.



#### 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

##### ●● Intent declared

##### **Accountability before a designated public authority**

The BAM governor is officially accountable directly to the king, but was previously not accountable to parliament or the minister of finance. Under the revised Statutes, the governor must now report to parliament on the conduct of monetary policy and on the activities of the credit institutions.<sup>36</sup> Central bank operations are discussed in parliament during the first part of the annual session when the budget (the Finance Law) is presented.

##### **Financial statement**

###### **Audited financial statement**

The BAM's *Annual Report* covers monetary policy and aggregates, and provides a summary balance sheet. This information is provided as part of a more general report on the overall economy in the reference year, reviewing national output, demand, prices, employment, foreign trade, external financial relations, the domestic banking system and the capital market. The BAM's operating expenses, revenues and net profit are clearly disclosed in the *Annual Report*.<sup>37</sup>

###### **External and internal audit**

The process and regulations for auditing the central bank are set out clearly in the BAM Statutes and respective regulations.<sup>38</sup> The auditors of the BAM are appointed by royal decree, under the recommendation of the minister of finance, and are nominated for a period of four years.<sup>39</sup> They may serve for up to a maximum of two four-year terms. The revised Statutes and Banking Act also make provisions for the use of external and independent auditors.<sup>40</sup>

The National Accounting Council sets the accounting standards. In addition, in 1997 the Moroccan National Council of the Institute of Chartered Accountants developed a manual of professional auditing standards based on the standards of the International Federation of Accountants (IFAC). Nonetheless, the accounting standards framework is substantially different from the framework approved by the International Accounting Standards Committee (IASC) in 1989. Independent data users are generally satisfied with the quality, integrity, and timeliness of the BAM's data. In January 2005, the BAM adopted a new accounting code in line with international standards for the purpose of presenting its financial statements, which will have to be certified by an auditor.<sup>41</sup>

##### **Conduct of officials**

Limited guidelines for staff conduct are set out in the Statutes of the BAM. The governor, vice-governor, directors-general or directors of the central bank cannot be members of international public institutions or of commercial companies, except in companies run by the state or in which the state has financial participation. They cannot represent third-party interests, as this is considered incompatible with government posts. All senior officials need to abide by information confidentiality requirements. By law, senior officials are only responsible for their duties and carry no personal liability for the BAM's commitments.<sup>42</sup>

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Morocco between 28 November and 2 December 2005:

### Bank Al-Maghrib, Rabat

#### 1 December 2005

Lahcen Boutahar	Assistant to Head of International Relations
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### Ministry of Finance and Privatisation, Rabat

#### 2 December 2005

Nizar Baraka	Division Chief DEPF
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#### 2 December 2005

Abdellatif Bennani	Director of Budget
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## ADDITIONAL INTERVIEWS

### Rabat

#### 29 November 2005

Carl Dawson	Executive Director	AMCHAM
Azzedine Akesbi	Economist	Transparency International
Khalid Msnaoui	Principal Economist	World Bank

#### 1 December 2005

Abdelkader Berrada	Professor	Faculté des sciences Juridiques Economiques
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### Casablanca

#### 30 November 2005

Nadia Yousfi Charif	Jurist	Conseil Deontologique des Valeurs Mobilieres (CDVM)
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## NOTES

- <sup>1</sup> See “Bank Al-Maghrib: Plus d’indépendance,” Bensalem Fennassi, 22 September 2004 at: [www.aujourd'hui.ma/details/?ref=20486](http://www.aujourd'hui.ma/details/?ref=20486)
- <sup>2</sup> See ‘Main functions of the Bank’, [www.bkam.ma/Anglais/Menu/Anex.asp](http://www.bkam.ma/Anglais/Menu/Anex.asp)
- <sup>3</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>4</sup> See Article 44, Central Bank Law.
- <sup>5</sup> See Article 45, Central Bank Law.
- <sup>6</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>7</sup> Annual Report presented to his Majesty the King, Bank Al-Maghrib, June 2005, [www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf](http://www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf)
- <sup>8</sup> Annual Report presented to his Majesty the King, Bank Al-Maghrib, June 2005, [www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf](http://www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf), page 80
- <sup>9</sup> *Circulaire relative aux interventions de Bank Al-Maghrib sur le marché monétaire*, 29 April, 1999.
- <sup>10</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>11</sup> See Article 65, Central Bank Law.
- <sup>12</sup> See Article 6, Central Bank Law.
- <sup>13</sup> Interviews in Morocco, 28 November – 2 December 2005 and Annual Report presented to his Majesty the King, Bank Al-Maghrib, June 2005, [www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf](http://www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf)
- <sup>14</sup> See “Reformes du Secteur Financier au Maroc”, Comité d’experts de la FEMIP, Luxembourg, March 2005.
- <sup>15</sup> Annual Report presented to his Majesty the King, Bank Al-Maghrib, June 2005, [www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf](http://www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf)
- <sup>16</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>17</sup> Bank Al-Maghrib, *Annual Report 2003*, p. 52.
- <sup>18</sup> *Circulaire relative aux interventions de Bank Al-Maghrib sur le marché monétaire*, 29 April, 1999.
- <sup>19</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>20</sup> See Article 51, Central Bank Law.
- <sup>21</sup> See Article 52, Central Bank Law.
- <sup>22</sup> See Article 49, Central Bank Law.
- <sup>23</sup> [www.bkam.ma/Francais/Menu/Anex.asp](http://www.bkam.ma/Francais/Menu/Anex.asp)
- <sup>24</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>25</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>26</sup> See under “Main economic and financial indicators” at: [www.bkam.ma/Anglais/Menu/Anex.asp](http://www.bkam.ma/Anglais/Menu/Anex.asp)
- <sup>27</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>28</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>29</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>30</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>31</sup> See article entitled, “Plan d’action à long terme de la Direction de la Statistique,” [www.statistic-hcp.ma/](http://www.statistic-hcp.ma/)
- <sup>32</sup> [www.bkam.ma/Anglais/Menu/Anex.asp](http://www.bkam.ma/Anglais/Menu/Anex.asp), Special Data Dissemination Standards
- <sup>33</sup> Data are available by area, for example, ‘Monetary and liquid investment aggregates’ at: [www.bkam.ma/Anglais/Menu/Anex.asp](http://www.bkam.ma/Anglais/Menu/Anex.asp)
- <sup>34</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>35</sup> Interviews in Morocco, 29 November – 3 December 2004.
- <sup>36</sup> See “Reformes du Secteur Financier au Maroc”, Comité d’experts de la FEMIP, Luxembourg, March 2005.
- <sup>37</sup> See income statement accounts, Bank Al-Maghrib, *Annual Report 2003*, p. 144.
- <sup>38</sup> See Article 57, Central Bank Law.
- <sup>39</sup> See Article 56, Central Bank Law.
- <sup>40</sup> See “Reformes du Secteur Financier au Maroc”, Comité d’experts de la FEMIP, Luxembourg, March 2005.
- <sup>41</sup> Annual Report presented to his Majesty the King, Bank Al-Maghrib, June 2005, [www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf](http://www.bkam.ma/Download/Rapport%20annuel/En/RAP2004ENG.pdf)
- <sup>42</sup> See Articles 60 and 62, Central Bank Law.